Clean Energy Upgrade Financing Program

ABX1 14 Loan Loss Reserve Program

Frequently Asked Questions[1]

ELIGIBLE PROJECTS AND IMPROVEMENTS

1. What are Eligible Properties?

Per statute, the improvements financed must be for a residential property of three units or fewer. The Qualified Loan must be made to the owner of the residential property, however, CAEATFA does not require that the property is owner-occupied.

2. What are considered Eligible Improvements?

Eligible Improvements are defined in regulations as energy saving home improvements which are permanently affixed to the real property. Eligible Improvements must:

a) Be recommended through a Pre-Project Assessment and designed to achieve at least ten percent (10%) total energy savings;

OR

b) Meet the requirements of a California Public Utilities Commission (CPUC)-approved residential whole-house energy efficiency retrofit program, *if borrower is participating in that program;*

OR

c) Include distributed generation renewable energy sources, as long as the project meets the loading order requirement identified in the regulations.

Please note that CAEATFA will **not** maintain a list of Eligible Improvements; instead, it will rely on the energy saving home improvements identified on the Pre-Project Assessment.

3. What is the loading order requirement? How can Borrowers meet it?

Any project involving renewable energy improvements must be part of a single Qualified Loan in which the energy efficiency improvements achieve a minimum ten percent (10%) reduction in total property energy use.

Compliance with the loading order can be established in one of three ways. Borrowers may:

a) Install the recommended Eligible Improvements necessary to achieve a minimum ten percent (10%) improvement in total energy use;

OR

b) Install the recommended Eligible Improvements necessary to satisfy the criteria defined in a CPUC-approved residential whole-house energy efficiency retrofit program *if borrower is participating in that program;*

OR

c) Demonstrate a Home Energy Rating (HERS) index rating of 85 or lower provided air sealing, attic insulation, duct test and seal or replacement, and insulation of domestic hot water or replacement have all been installed if recommended by the Pre-Project Assessment.

[1] Capitalized terms are defined in the Program's statute and regulations.

QUALITY ASSURANCE STANDARDS

1. Who is considered a Qualified Contractor?

As defined in the Program regulations, a Qualified Contractor is one who is licensed for the work they perform and who must complete all work according to all applicable laws, rules and regulations. For the purposes of this Program, Qualified Contractors include:

a) BPI certified professionals;

b) Contractors who are approved to participate in a CPUC-approved residential whole-house energy efficiency retrofit program *if borrower is participating in that program;*;

c) Contractors who hold a valid A, B, C-4, C-10, C-36, C-46 license from the California Contractors State License Board, if improvements include distributed generation renewable energy sources.

2. Will CAEATFA verify Qualified Contractor's certifications and licenses?

No. CAEATFA will not be qualifying or verifying Qualified Contractors' certifications or licenses to perform the work they do. Instead, Qualified Contractors will be required to sign a Certificate of Completion upon completing a project in which they must make certain certifications, such as: a) that he or she is licensed to perform the work for which the Qualified Loan is made, and b) that he or she is a BPI certified contractor if performing energy efficiency improvements, among other self-certifications.

3. Where can Participating Financial Institutions and Borrowers obtain information about contractors and raters who may be able to assist customers with their energy upgrade projects?

CAEATFA will not maintain a list of contractors or raters in California. However, Participating Financial Institutions and Borrowers interested in obtaining information about contractors and raters can use several publicly available directories, including:

- www.energyupgradeca.org
- http://www.bpi.org/tools_contact.aspx?submissionType=VER
- http://www.gosolarcalifornia.org/database/search-new.php

Please note, in many cases these lists are not comprehensive or updated frequently, and may not include all licensed contractors in a given area.

Before hiring any contractor, customers are urged to visit the Contractors State License Board (CSLB) website at http://www.cslb.ca.gov for information on what they should do to protect themselves when hiring a contractor. The CSLB protects consumers by licensing and regulating the construction industry, and offers educational information about selecting a contractor, such as: verifying that the contractor is properly licensed, obtaining several bids for any planned work, and executing a contract in writing that specifies the work to be performed, service or products to be provided, and an itemized schedule of costs.

4. Who can conduct the Pre-Project Assessment and the Post-Project Assessment?

The Pre-Project Assessment may be performed by a Qualified Contractor, which includes HERS Whole House Raters, BPI Building Analysts, or BPI Energy Auditors.

The Post-Project Assessment must be performed using one of the following methods:

a) By a HERS Whole House Rater, a BPI Building Analyst, or a BPI Energy Auditor who is independent from the contractor that performed the work;

OR

b) In accordance with the quality assurance protocols established under a CPUC-approved residential whole-house energy energy efficiency retrofit program *if borrower is participating in that program;*

OR

c) In accordance with the quality assurance protocols established under the Home Performance with ENERGY STAR joint program of the U.S. Environmental Protection Agency and the U.S. Department of Energy *if borrower is participating in a residential whole-house energy efficiency retrofit program operated by a utility that is not subject to approval by the CPUC*.

5. Can a utility's Post-Project Assessment be considered to be an independent, third-party assessment?

Yes. If a utility where the project is completed performs an inspection of the installed improvements by an inspector that is BPI or HERS II certified, the Qualified Contractor may submit this documentation to the Participating Financial Institution in lieu of the Post-Project Assessment.

FINANCIAL INSTITUTIONS APPLICATION PROCEDURES AND TIMING

1. What types of Financial Institutions may apply to participate in the Program?

Statute defines an applicant as a financial institution providing a loan for eligible property owners and improvements. CAEATFA defines "Financial Institution" in the Program regulations as any insured depository institution, insured credit union, or community development financial institution, as those terms are each defined in Section 103 of the Riegle Community Development and Regulatory Improvement Act of 1994 (12 U.S.C. 4702). A Participating Financial Institution may also be a municipal utility district as described in Section 12850 of the Public Utilities Code.

2. How do interested Financial Institutions apply? When can they apply?

Interested Financial Institutions who meet the definition will need to submit an application to CAEATFA. The application and corresponding materials may be submitted at any time for consideration. CAEATFA will be considering applications from interested Financial Institutions on an ongoing basis. The application material and information can be found on the CAEATFA website on the ABX1 14 Loan Loss Reserve page (http://www.treasurer.ca.gov/caeatfa/abx1_14/documents.asp). Completed applications should be submitted by mail to the CAEATFA office as well as emailed to gogreen@treasurer.ca.gov. Applications are not considered complete until CAEATFA receives the complete physical application with original signatures at CAEATFA's office.

3. What level of detail should the Financial Institution's application include? What is a "mechanism by which savings are passed on to the Borrowers"?

For an application to be deemed complete it must be filled out in its entirety and must include a detailed description of the Financial Institution's loan program to finance Eligible Improvements, including: a) financing product details, such as collateral (if any), property type, max and minimum loan amounts, interest rates (whether fixed or variable), loan terms, etc. and b) underwriting criteria such as FICO score, debt-to-income ratio, etc. For a list of other examples of what can be included on a complete application, visit the Financial Institution Application Tips at http://www.treasurer.ca.gov/caeatfa/abx1_14/documents.asp.

As required by statute, Financial Institutions applying to participate in the Program must describe how cost savings associated with participating in the Loan Loss Reserve Program are passed on to the Borrowers. The answers to these questions will vary based on the structures and procedures established by the

Financial Institution. It is anticipated that interest rates available through these loan programs will be lower than they would have been if the Qualified Loan was not enrolled in the Program.

4. ***How does CAEATFA evaluate applications from Financial Institutions?***

Applications will be evaluated based on the criteria specified in the authorizing statute and made more specific in the Program regulations. For example, as outlined in Section 10053 of the Program regulations, the Financial Institution cannot be subject to a cease and desist order or other regulatory sanction with the appropriate federal or state regulatory body. The Financial Institution must also provide a detailed description of its loan program to finance Eligible Improvements, including a detailed description of the transactional activities associated with loan issuance, including all transactional costs, and the mechanism by which savings produced by this Program are passed on to the Borrowers in the form of lower cost financing.

5. ***How can Borrowers find out which Financial Institutions are participating in the Program?***

Once a Financial Institution's application is approved, CAEATFA will list all Participating Financial Institutions and respective contact information on its website.

LOAN PRODUCTS

1. ***Can Participating Financial Institutions establish additional criteria to those set forth in regulations?***

Yes. CAEATFA has established Minimum Underwriting Criteria in the Program regulations, including:

- Qualified Loans may be secured or unsecured closed end loans.
- A Qualified Loan must not exceed ten percent (10%) of the value of the Eligible Property as determined by the Participating Financial Institution.
- Borrowers must be the legal owners of the Eligible Property.
- Borrowers must be current on their mortgage and property tax payments and not in default or in bankruptcy proceedings.

However, Participating Financial Institutions may establish additional underwriting criteria. A Participating Financial Institution agrees that for each Qualified Loan it makes it will investigate and evaluate the creditworthiness of the applicant in a manner consistent with the regulations and its customary practices for loans in the amount proposed.

2. ***What are the anticipated interest rates and loan terms for Qualified Loans enrolled in the Program?***

A goal of the Program is to increase access to financing options at better rates than those currently in the marketplace, particularly for unsecured loan products. CAEATFA anticipates the interest rates will be lower than ten percent (10%). Participating Financial Institutions will be required to provide a comparison to CAEATFA of the interest rate the Borrower would have received if the Qualified Loan was not enrolled in the Program.

Participating Financial Institutions will be able to determine the loan term. CAEATFA anticipates loan terms will range from 5 to 20 years. Any Qualified Loan enrolled in the Program, regardless of the term of the loan, may only be covered for a loss for a maximum of ten (10) years. The term of the loan may exceed this 10-year period.

3. ***A Qualified Loan must not exceed ten percent (10%) of the value of the Eligible Property. How can Participating Financial Institutions determine this value?***

   A Participating Financial Institution will have the discretion to determine the value of the Eligible Property by choosing a methodology consistent with its typical lending practices.

4. ***What costs can be included in the total loan amount enrolled in the Program?***

   In addition to covering the cost of Eligible Improvements, a Qualified Loan may include the cost of the pre-energy efficiency assessment and the post-energy assessment, as well as fees associated with the issuance of the Qualified Loan, such as application fees and the cost of the appraisal, if any.

LOAN LOSS RESERVE ACCOUNTS

1. ***How much funding is available for the Program?***

   CAEATFA has up to $25 million available for the Program. It is anticipated that there will be funds available through January 1, 2015, when the Program sunsets. In the event there is high loan activity and the Program funds are being exhausted, CAEATFA will notify all Participating Financial Institutions.

2. ***What will the reserve contribution be for each enrolled Qualified Loan?***

   Initially, CAEATFA will contribute fifteen percent (15%) of the enrolled principal amount of each Qualified Loan. Once the Participating Financial Institution's enrolled loan volume reaches $250,000, the contribution will be ten percent (10%) for any additional Qualified Loans enrolled in the Program.

3. ***Where are the Loss Reserve Accounts maintained?***

   CAEATFA will retain Trustee services to manage the Loss Reserve Accounts on behalf of individual Participating Financial Institutions. Each Participating Financial Institution will have the ability to electronically view its account.

4. ***Since the Loss Reserve Account will be held by a Trustee, do Participating Financial Institutions still need to maintain their own capital reserves requirement to manage their portfolio of loans?***

   Participating Financial Institutions must comply with any requirements as set forth by their regulators, including maintaining the appropriate reserve coverage for their individual portfolios.

5. ***What is the maximum coverage provided on each Qualified Loan by the Loss Reserve Account?***

   Participating Financial Institutions may claim 100% of the charged-off loan balance up to the enrolled principal amount. Reasonable out-of-pocket expenses associated with the charge-off of a Qualified Loan may also be claimed.

6. ***Is there a maximum loan portfolio amount per Participating Financial Institution?***

   No. The Program is designed so that Participating Financial Institutions can enroll Qualified Loans as long as Participating Financial Institutions are in good standing and meet all Program regulations and requirements. However, there will be no "set-asides" or allocations per Participating Financial Institution.

LOAN ENROLLMENT

1. When can a Participating Financial Institution enroll a Qualified Loan in the Program?

A Participating Financial Institution must enroll all or a part of any Qualified Loan by notifying CAEATFA in writing within fifteen (15) business days after it receives a signed Certificate of Completion from the Qualified Contractor and/or the Borrower certifying that the project is complete and has satisfied all Program requirements. It is important to emphasize that the project must be completed and the Certificate of Completion signed by the Qualified Contractor and Borrower received by the Participating Financial Institution before it is able to enroll the Qualified Loan.

2. Can Participating Financial Institutions "pre-qualify" a loan enrollment with the Program before making the loan?

No. CAEATFA will not be pre-qualifying loans since the statute requires that all Qualified Loans enrolled in the Program must be for projects that have been completed. However, Participating Financial Institutions are encouraged to contact CAEATFA staff with any questions.

3. What documentation needs to be submitted to enroll a Qualified Loan?

In order to enroll a Qualified Loan, a Participating Financial Institution must submit the following documents for each Qualified Loan:

- Loan Enrollment Application
- Certificate of Completion
- Copy of the Pre-Project Assessment
- Copy of the Post-Project Assessment
- Copy of the servicing utility's post-retrofit approval, if applicable
- Copy of the utility permission to operate letter or interconnection agreement, if the improvement includes distributed generation renewable energy

These forms can be found on the ABX1 14 main page.

4. Can a Participating Financial Institution enroll a Qualified Loan or a portion thereof in any government program substantially similar to the Program?

Yes. A Qualified Loan enrolled in the Program may be enrolled in any government program substantially similar to the Program including, but not limited to, other loan loss reserve or loan guarantee programs. The Participating Financial Institution will be responsible for notifying CAEATFA if at any time a Qualified Loan or a portion thereof is enrolled in another substantially similar program.

In the event of a charge-off, reimbursement from all sources may not exceed the enrolled amount of the Qualified Loan, except when reasonable out-of-pocket expenses limited to the ratio of the enrolled portion to the total loan amount are claimed.

5. Must Participating Financial Institutions enroll the entire loan amount with the Program?

No. The Participating Financial Institution determines how much of its loan to enroll in the Program. For example, the Participating Financial Institution may loan $35,000 to the Borrower, but only a portion of the loan ($10,000) is for Eligible Improvements, so the Participating Financial Institution would only enroll $10,000 of the loan in the Program. In the case of a charge-off, the Participating Financial Institution can only recover the outstanding amount from the eligible portion of the loan that was enrolled in the Program.

CLAIMS FOR REIMBURSEMENT

1. ***When should a Participating Financial Institution file a claim for reimbursement on a loan?***

   A Participating Financial Institution must submit a claim for reimbursement within 60 calendar days of charging off all or a portion of a defaulted Qualified Loan. The Participating Financial Institution may defer making a claim for up to 180 calendar days from the date of charge off, but must still notify CAEATFA within 60 calendar days of the charge off in order to retain the ability to make a claim in the future.

   The Participating Financial Institution may file a claim for reimbursement of a loss before the liquidation of collateral or the realization of personal or other financial guarantees, or recovery of outstanding amounts from other sources. However, the Participating Financial Institution must reimburse the Loss Reserve Account for any recovery made through loan collection activities.

   The Participating Financial Institution will be required to submit a statement regarding claims made concerning Qualified Loans enrolled with other government programs substantially similar to the Program, including amounts of reimbursements anticipated or received. Claim reimbursements from all sources cannot exceed the enrolled amount plus any reasonable out-of-pocket expenses associated with the charge-off.

2. ***What happens if there are not enough funds in the Loss Reserve Account to cover the total charge-off amount?***

   If there are not enough funds in the Loss Reserve Account to cover all of the loss, a Participating Financial Institution may withdraw the total amount in the Loss Reserve Account at the time of the claim to cover the loss to the fullest extent possible. The Participating Financial Institution then may continue making Qualified Loans under the Program until the Loss Reserve Account is sufficiently replenished to recover the remaining funds. The Participating Financial Institution may make *one* subsequent claim in order to cover the earlier claim.